

**AUDITOR~SREPORT OF THE
AUDITOR-GENERAL TO THE
LIMPOPO PROVINCIAL
LEGISLATURE AND THE COUNCIL
ON GREATER TUBATSE
MUNICIPALITY**

30 November 2010

**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE GREATER TUBATSE MUNICIPALITY
FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of Greater Tubatse Municipality which comprise the statement of financial position as at 30 June 2009, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages **xxx to xxx**.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 010 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
4. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Greater Tubatse Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

Basis for disclaimer of opinion

Trade and other payables

5. In my previous audit report dated 27 November 2008, I was unable to form an opinion whether all existing trade creditors have been included in the balance of R 388,814 as disclosed in note 6 to the financial statements. This has not been adequately resolved in the current year, and I am unable to determine the impact, if any, on the prior year's accumulated surplus.

6. The municipality does not maintain a creditor's ledger and reconcile it to the creditors control account. Although alternate procedures were performed by testing subsequent payments, I was unable to ensure that all existing trade creditors have been included in the balance of R 9,640,067 as disclosed in note 6 to the financial statements.
7. Other creditors include unallocated receipts of R6,715,552 (R4,700,000 for the prior year) disclosed in note 6 to the financial statements which have not been reconciled. The municipality's records did not permit the application of alternate audit procedures. Consequently, trade and other payables are overstated by this amount. In the absence of records, the other account balance affected cannot be determined.

Expenditure

8. The municipality has incurred expenditure on the provision of water services on behalf of Greater Sekhukhune District Municipality. This has been incorrectly accounted for by the municipality as their own expense. The municipality's records did not permit the application of alternate audit procedures to determine the misstatement. Consequently, the misstatement in expenditure, trade and other payables, trade and other receivables (on account of input VAT) and the accumulated surplus cannot be determined.

Revenue

9. Service charges as disclosed in note 15 to the financial statements include revenue amounting to R 8,930,550 accrued by the municipality for the provision of water services on behalf of Greater Sekhukhune District Municipality. This has been incorrectly accounted for by the municipality as their own revenue, and consequently service charges are overstated by this amount. The municipality's records did not permit the application of alternate audit procedures to determine the misstatement in consumer debtors, trade and other receivables (on account of output VAT) and the accumulated surplus.
10. The municipality has not accrued for revenue from agency fees for providing water services on behalf of Greater Sekhukhune District Municipality. The municipality's records did not permit the application of alternate audit procedures to determine the misstatement. Consequently, the misstatement in service charges, trade and other receivables (on account of dues from Greater Sekhukhune District Municipality and output VAT) and the accumulated surplus cannot be determined.

Property, plant and equipment

11. Property, plant and equipment amounting to R 298,826,534 disclosed in the financial statements include infrastructure assets for the provision of water services. These services are the primary responsibility of Greater Sekhukhune District Municipality and consequently property, plant and equipment and the corresponding accumulated surplus are overstated. The municipality's records did not permit the application of alternate audit procedures to determine the misstatement. Consequently, the misstatement in consumer debtors, trade and other receivables (on account of output VAT) and the accumulated surplus cannot be determined.

Provisions

12. The municipality has not created a provision for the restoration of landfill sites which is in contradiction of Generally Accepted Municipal Accounting Practice 17 and 19 (GAMAP 17 and 19). The lack of information did not permit the application

of alternate audit procedures and consequently the impact on property, plant and equipment also could not be determined.

Disclaimer of opinion

13. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

I draw attention to the following matters on which I do not express a disclaimer of opinion:

Amendments to the applicable basis of accounting

14. As set out in the accounting policy note 1 the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 552 of 2007*, issued in *Government Gazette 30013 of 29 June 2007*.

Unauthorised Expenditure

15. As disclosed in note 33 to the financial statements, unauthorized expenditure to the amount of R 13,155,522 was incurred as operating costs in excess of the budgeted amount.

Restatement of corresponding figures

16. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 2008-2009 in the financial statements of Greater Tubatse Municipality at, and for the year ended 30 June 2008.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

17. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages **xx to xx** does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.

Non-compliance with applicable legislation

The National Environment Management: Waste Act, 2008 (Act No. 59 of 2008)

18. The Provincial Department of Economic Development, Environment and Tourism has declined to permit Greater Tubatse Municipality the use of the existing landfill site, and refuse is currently being dumped without a valid permit.

Governance framework

19. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

20. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. The number listed per component can be followed with the legend below the table. In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
5-7	Trade and other payables		2			
8	Expenditure				1	
9-10	Revenue				1	
11	Property, plant and equipment				1	
12	Provisions	7				

21. The qualification of my opinion is due to the fact that the municipality is not adequately staffed to ensure compliance with all the changes in the bases of accounting. Furthermore, budgetary constraints don't allow the municipality to incur additional training cost.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5

CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

22. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The municipality had an audit committee in operation throughout the financial year.		✓
	• The audit committee operates in accordance with approved, written terms of reference.		✓
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
7.	Internal audit		
	• The municipality had an internal audit function in operation throughout the financial year.	✓	
	• The internal audit function operates in terms of an approved internal audit plan.	✓	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in		✓

	respect of financial and risk management.		
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		✓
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in 62(c)(i) of the MFMA.	✓	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✓	
Issues relating to the reporting of performance information			
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
15.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Greater Tlalatse Municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68 / 87 of the MFMA.	✓	
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

23. The municipality is not adequately staffed to ensure compliance with all the changes in the bases of accounting. Furthermore, budgetary constraints don't allow the municipality to incur additional training cost.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Reporting on performance information

24. I have reviewed the performance information as set out in pages **xx to xx**.

The accounting officer's responsibility for the performance information

25. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

26. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

27. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgment.

28. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Content of integrated development plan

29. The integrated development plan of the Greater Tubatse Municipality did not include the performance targets determined in terms of its performance management system, as required by sections 26(l) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Existence and functioning of a performance audit committee

30. The Greater Tubatse Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilized as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness and reliability of reported performance information

31. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- **Relevance:** Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- **Reliability:** Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Inconsistently reported performance information

32. The number of other sector meetings in the Economic and Land Development department was incorrectly reported in the annual performance report that six meetings were held during the year instead of five meetings.
33. The number of business linkage facilitated and established in the Economic and Land Development department was reported as twenty three in the performance report instead of twenty two.
34. The rand value of business linkages in the Economic and Land Development department was reported in the annual performance report as R 48,564,000 instead of R 48,063,500
35. The number of business registration facilitated in the Economic and Land Development department reported two hundred and five in the performance report instead of two hundred and three.
36. The percentage of equitable share utilised for indigents in the Finance department: Actual amount spent on electricity indigents was R 4,333,523 while income received for equitable shares was R 57,481,429 hence seven and a half percent of equitable shares was utilised on indigents, however it was reported in performance report that two and a half percent of equitable shares was spent on indigents.
37. Percentage progress with review of indigent register in the finance department was reported that the register was one hundred percent complete however the percentage progress was incorrectly captured as two percent.

APPRECIATION

38. The assistance rendered by the staff of the Greater Tubatse Municipality during the audit is sincerely appreciated.

Polokwane

Date: 9 Feb 2010



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